



Community hospitals affiliated with KAISER PERMANENTE.

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the House Committee on Finance

RE: FIN Info Briefing
Hearing date: Thursday, January 5, 2023 @ 1:30 p.m.

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee,

Thank you for allowing me the opportunity to submit testimony regarding our budget appropriation requests for the 2024 fiscal year. As you are aware, Act 103, SLH 2015, codified as HRS Chapter 323F, Part IV (“Act 103”) provides for operating and capital subsidies for Maui Health System (“MHS”) in connection with its operation of the hospitals. Under HRS §323F-58 and the terms of the Transfer Agreement signed January 14, 2016 between MHS and Hawai’i Health Systems Corporation, the State of Hawai’i, and the Maui Region of Hawai’i Health Systems Corporation (the “Transfer Agreement”), MHS may request operating support payments annually based upon the amounts needed to cover any operating losses of the Hospitals plus a 2% margin, but the amount requested in any year may not exceed the amount appropriated to subsidize the operating costs of the Maui Regional System for the 2014 fiscal year, which was \$38 million. Under HRS §323F-59 MHS may also request support payments for its capital expenditures during the first ten (10) years of MHS’ operations of the hospitals in an amount not less than \$6 million.

The last subsidy the State provided to HHSC-Maui Region for the hospitals before the transition was \$36.8 million. For the current fiscal year of 2023, the appropriation for MHS’ operating subsidy is \$8,923,000.

MHS is truly a community hospital and the only acute care hospital serving all of Maui, and Lanai. We are proud to have reduced the State subsidy by a significant amount over the last several years and is committed to continuing to do so and eliminating it altogether. However, MHS and many acute care hospitals across the State are experiencing financial struggles like never before due to the shortage of locally based medical staff.

The hospital has been at peak census many times in recent months. The waitlist continues to increase, and the patients are frequently staying longer. The increase in wait list patients is largely driven by the nursing homes and other post hospital providers inability to maintain staff. Maui Health has only been able to continue providing the care that the people of Maui need by using expensive outsourced personnel (travelers). In 2021 Maui Health spent \$13.2m on outsourced personnel. In 2022 Maui Health expects to spend \$29.5 (a \$16.3m increase). Unfortunately, there are no signs that the labor shortage especially for clinicians will improve soon. Similarly, the labor unions are aggressively pursuing increases for their members. As a result of market conditions and labor negotiations we expect wage increase of more than \$7m. With inflation more than 8% we expect our supplies and other non-salary costs to increase more than \$8m. We continue work to lower cost but given the financial storm our expenses will rise

significantly. More than 50% of Maui Health's revenue is from government sources (Medicare and Medicaid) and the reimbursement is often less than the cost of providing the care. Historically hospitals have relied on commercial payers to make up the short fall related to government payers. Maui Health is asking commercial insurance plans to help but it is likely there will still be a substantial loss. To reduce the burden to the state Maui Health has intentionally reduced its subsidy request from the previous year each year. Unfortunately, caused by matters of which Maui Health has no control, Maui Health respectfully requests the states assistance in continuing to provide care to the people of Maui by providing an operating subsidy of \$22m for fiscal year 2024.

We thank you for your service and hard work on behalf of the State of Hawaii and hope that you can support our subsidy request and the funding source from which it may be derived.

Mahalo for your consideration,

Michael Rembis
Chief Executive Officer